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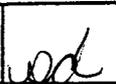
BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

JUL - 9 2001

1  
2 WILLIAM A. MUNDELL  
Chairman  
3 JIM IRVIN  
Commissioner  
4 MARC SPITZER  
Commissioner

5  
DOCKETED BY 

6 IN THE MATTER OF THE PETITION OF )  
ARIZONA ELECTRIC POWER COOPERATIVE, )  
7 INC., TO SET ITS COMPETITION TRANSITION )  
CHARGE FOR THE PERIOD OF JULY 1, 2001 )  
8 TO JUNE 30, 2002 )

DOCKET NO. E-01773A-98-0470

DECISION NO. 63862

ORDER

9  
10 Open Meeting  
June 26 and 27, 2001  
11 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

14 1. The Arizona Electric Power Cooperative, Inc. ("AEPSCO") is a non-profit Arizona rural  
15 electric generation and transmission cooperative. It supplies all of the electric power generation and  
16 transmission requirements of its six Class A member-owned distribution cooperatives under all-  
17 requirement contracts and sells energy and transmission to various other wholesale customers.

18 2. On May 3, 2001, AEPSCO filed a letter with Staff containing the calculation of  
19 AEPSCO's Competitive Transition Charge ("CTC") to be applied from July 1, 2001 through June 30,  
20 2002. AEPSCO's CTC was originally implemented pursuant to Decisions Nos. 60977 and 62758. The  
21 matter was subsequently docketed on May 24, 2001, at Staff's request.

22 3. Decision No. 60977, dated June 22, 1998, defined "stranded costs" as the difference  
23 between market based prices for electricity and the regulated cost of power." The Decision listed as  
24 a primary objective "to provide the Affected Utilities a reasonable opportunity to collect 100 percent  
25 of unmitigated stranded costs."

26 4. The Decision allowed each Affected Utility to choose from two methodologies for  
27 recovery of its stranded costs. The first methodology was divestiture or auction of all generation assets  
28 and recovery of the stranded costs for a period no longer than 10 years. The other methodology

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1 allowed by the Commission for recovery of stranded costs was the transition revenue methodology  
2 whereby an Affected Utility received revenues necessary to maintain financial integrity. The transition  
3 revenues would be collected for a period of ten years.

4 5. The Decision also confirmed A.A.C. R14-2-1607(J) which limits recovery of stranded  
5 costs only "from customer purchases made in the competitive market."

6 6. Decision No. 62758, dated July 27, 2000 approved AEPCO's choice of one of the two  
7 methodologies for collecting stranded costs set forth in Decision No. 60977.

8 7. AEPCO chose to implement a Regulatory Asset Charge ("RAC") to recover "stranded"  
9 deferred assets including debt refinancing costs and the costs associated with the buy-out of its Carbon  
10 Coal all-requirements contract.

11 8. AEPCO chose the financial integrity methodology to recover transitional revenue. The  
12 transitional revenue was defined in the Decision No. 62758 as "the difference between its total  
13 generation revenue requirement for Class A Members...less total generation market price revenues."

14 9. The Competition Transition Charge or CTC would be assessed on AEPCO's member  
15 distribution cooperatives, which, in turn, would add it to their unbundled tariffs and collect it from  
16 their retail customers who elect to take power from another supplier.

17 10. The Decision also found that the CTC would not be "trued-up" for either over or  
18 undercollection but would be reset on July 1, 2001, and on each July 1 through 2004 with the CTC  
19 ending on July 1, 2005.

20 11. If calculations produced a zero or negative number, the Decision found there would be  
21 no CTC in effect for that year.

22 12. AEPCO's initial CTC of \$0.0091 per kWh was also approved in the Decision. The  
23 charge was calculated by subtracting the forecasted market price of \$0.03 per kWh from AEPCO's  
24 forecasted revenue requirement of \$0.0391 per kWh for the year commencing July 1, 2000 to June 30,  
25 2001.

26 13. The Decision ordered that "the Competition Transition Charge authorized herein may  
27 be examined and, if appropriate, adjusted in a subsequent Commission proceeding dealing with  
28 AEPCO's restructuring in the case of an all-requirements member Distribution Cooperative which

1 elects as part of the restructuring to become a partial requirements member."

2 14. AEPCO currently has a request for approval to restructure pending before this  
3 Commission. The restructuring of the contract of Mohave Electric Cooperative, Inc. ("Mohave") from  
4 a full-requirement contract into a partial-requirement member is included in that docket.

5 15. AEPCO has requested approval of a new CTC of zero to be instituted on July 1, 2001  
6 through June 30, 2002.

7 16. The May 3<sup>rd</sup> filing supporting this request includes the projection of AEPCO's load,  
8 revenue requirement and projected market price. The schedule attached to the filing includes  
9 AEPCO's estimate of its revenue requirement of \$0.0379 per kWh and a projected market price of  
10 \$0.08384 per kWh resulting in a negative \$0.04594.

11 17. However, pursuant to Decision No. 62758, the CTC cannot be negative. Therefore,  
12 AEPCO requests that it be set at zero.

13 18. Staff filed its Memorandum to the Commission for this matter on June 6, 2001.

14 19. Staff reviewed AEPCO's calculation of the CTC to be implemented on July 1, 2001.  
15 And believes the Cooperative correctly calculated the CTC.

16 20. However, the difference between AEPCO's generating costs and projected market  
17 prices is so large that even significant changes in assumptions used by AEPCO in its forecasts would  
18 not have caused the CTC to turn positive. In future years, the assumptions used could have a more  
19 critical role and the allocation of expenses to generation should be more carefully reviewed.

20 21. For example, in the calculation of the CTC currently in effect, AEPCO allocated 76.5  
21 percent of its total administration, depreciation, taxes and interest expense to generation. In the current  
22 filing, the allocation was reduced to 67.37 percent.

23 22. Reducing the percentage allocation to the generation operations results in increasing  
24 the allocation to the transmission portion of AEPCO's business. This issue would be better deferred  
25 to a future rate case when Staff has properly audited the costs of transmission and generation.

26 23. Another issue that should be addressed in a more appropriate docket is the impact  
27 Mohave Electric Cooperative (currently AEPCO's largest Class A member) will have on the CTC if  
28 it becomes a partial requirements member as proposed in the restructuring docket. Although Staff

1 makes a recommendation in this case, Staff also reserves the right of the Commission to re-examine  
2 and adjust the CTC calculation in either the restructuring docket or a future rate case.

3 24. As currently calculated and applied, Staff recommends approval of AEPCO's request  
4 to set the Competition Transition Charge at zero for the period beginning July 1, 2001 and ending  
5 June 30, 2002.

6 **CONCLUSIONS OF LAW**

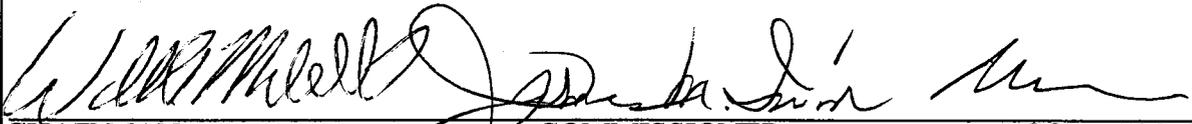
7 1. AEPCO is a public service corporation within the meaning of Article XV of the  
8 Arizona Constitution and A.R.S. Sections 40-202,-203,-250, -321, -322, -336, -361, 365,, -367, and  
9 under the Arizona Revised Statutes, Title 40, generally.

10 **ORDER**

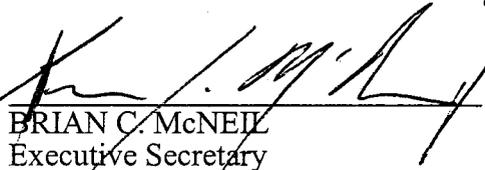
11 IT IS THEREFORE ORDERED that the Arizona Electric Power Cooperative, Inc., filing to  
12 set the Competition Transition Charge at zero for the period of July 1, 2001 to June 30, 2002 is  
13 approved..

14 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

15  
16 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

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18   
19 CHAIRMAN COMMISSIONER COMMISSIONER

20 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
21 Secretary of the Arizona Corporation Commission, have  
22 hereunto, set my hand and caused the official seal of this  
23 Commission to be affixed at the Capitol, in the City of  
24 Phoenix, this 9TH day of July, 2001.

25   
26 BRIAN C. McNEIL  
27 Executive Secretary

28 DISSENT: \_\_\_\_\_

DRS:LAJ:lhmlJMA

SERVICE LIST FOR: Arizona Electric Power Cooperative, Inc.

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